



What impact do geopolitical conflicts
have on the world economy,
and how do these conflicts resonate globally?

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INTRODUCTION

Geopolitical conflicts refer to strained relations between nations due to conflicting interests, territorial disputes, ideological differences, or resource competition.

The invasion of Russia on Ukraine on 24 February 2022 became the largest attack on a European country since World War II.

The spillover effect fell upon India as well, with pushed up global crude oil prices to record highs, stocks markets tumbled, inflation soared to record highs, rupee plunged against the US dollar, foreign exchange reserves took a hit etc.

IMPACT OF GEOPOLITICAL CONFLICTS ON THE WORLD ECONOMY

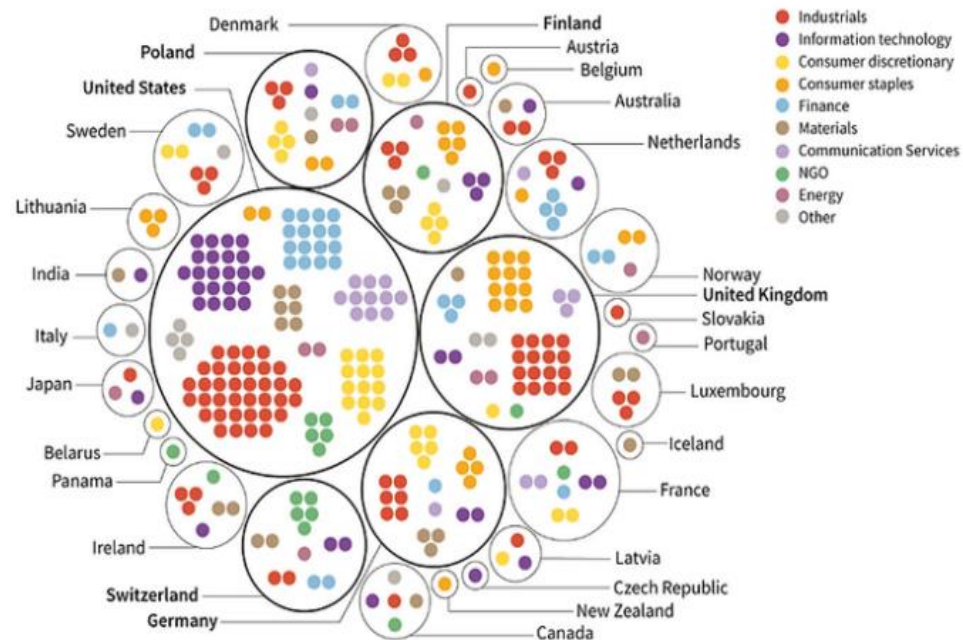
Disruption of Trade and Supply Chains

- ❑ Land-based trade routes between Asia and Europe will be disrupted as transit through Russia becomes more difficult, which will affect some Chinese companies.
- ❑ Air ties between Russia and Europe (and, in turn, Asia and Europe) will be severely hampered following the decision of EU countries to close their airspace to Russian aircraft and cargo.
- ❑ Sea freight routes through the Black Sea will be cancelled for several weeks.

Changes in Investment Patterns

Companies pulling out of Russia

Number of companies that have totally halted their activities in Russia, by country and sector



Source: Yale School of Management, as of July 19

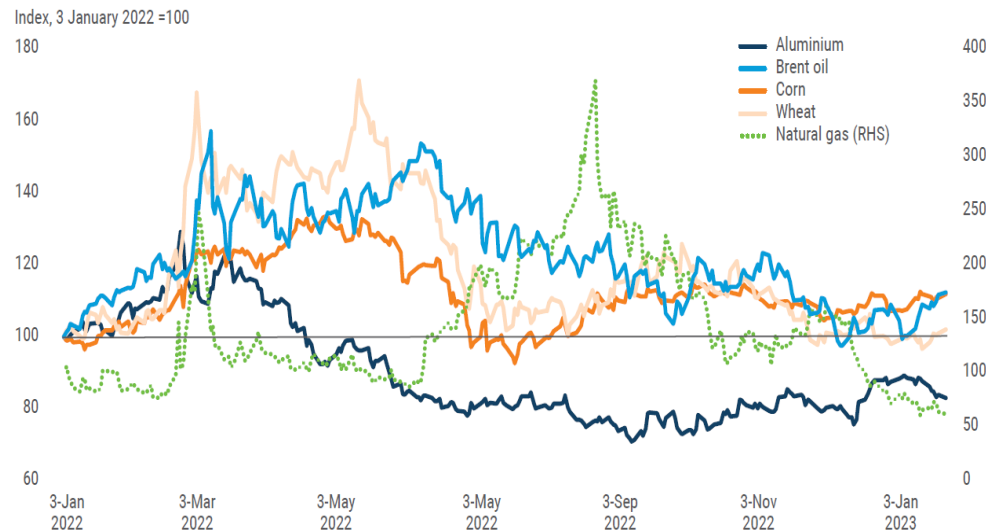
□ Governments and businesses have taken investment-specific measures in response to Russia's invasion of Ukraine.

□ Big brands from Nike and Coca-Cola to IKEA and Apple are among over 1,000 global firms that have exited Russia or made public plans to scale back their activities.

□ The impact on global FDI flows will however be limited, as Russia's role as a recipient and origin of FDI is marginal, according to OECD FDI statistics.

Financial Market Volatility

Figure 2
Global prices of selected commodities



Source: UN DESA, based on data from Trading Economics.

Note: The figure shows daily Dutch front-month natural gas futures at the title transfer facility (TTF), a leading European benchmark price. RHS = right-hand scale.

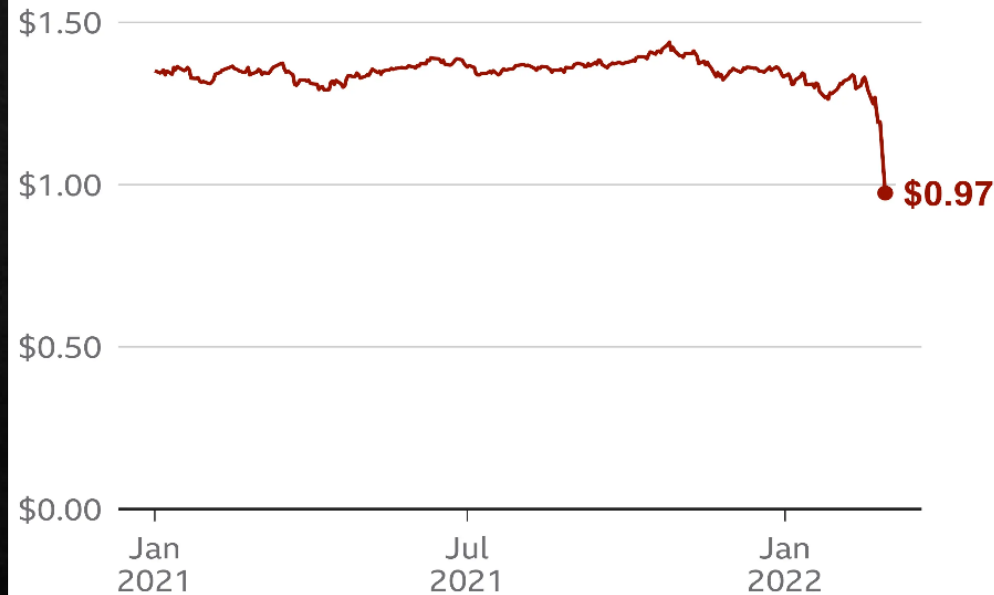
Volatility has risen sharply in both equity and interest rate markets following the Russian invasion of Ukraine, reflecting heightened uncertainty on the economic and policy outlook.

Russia and Ukraine are also major exporters of many other important commodities such as wheat, neon gas, palladium and sunflower oil, their prices have been soaring too and they're destined to keep increasing due to western sanctions.

Effects on Currency Exchange Rates

The rouble collapse against US dollar

Exchange rate for 100 Russian roubles



Source: Bloomberg, Last Update: 28 Feb 2022, 10:00am

BBC

The Russian rouble has lost more than 64% to the dollar year to date to reach a record low, in large part due to the surprising severity of western sanctions imposed on Russia and its financial system, which aimed to isolate Moscow from the global economy.

In the year since the Russian invasion of Ukraine, the rupee has weakened by almost 800 paise or 9.8% against the US dollar.

Increase in Economic Uncertainty

- ❑ **Central banks are vigorously fighting inflation:** Soaring food and energy prices and renewed supply shocks caused by the war in Ukraine have driven a surge in inflation and pushed up short- and medium-term inflation expectations.
- ❑ **Mounting debt and balance of payment vulnerabilities:** Weaker domestic currencies pushed up import bills and further amplified inflationary pressures in many developing countries.

CONCLUSION

The economic impact of the conflict will be felt mostly in Ukraine and Russia, which will both experience sharp recessions this year. Elsewhere in Europe, the EU will suffer from an energy, supply-chain and trade shock.

The economic impact of the war in Ukraine may be less urgent than the immediate suffering and death in the warzone. The impacts themselves cause further harm by driving food insecurity and poverty to perilous levels.

Public funds from OECD member countries and international organisations, as well as private investment, will be vital to mobilising efforts to help Ukraine during the conflict.

THANK YOU